



APPROVED MINUTES
APPROVED 06-18-12

CITY OF SCOTTSDALE
AUDIT COMMITTEE

MONDAY, APRIL 16, 2012

CITY HALL
KIVA CONFERENCE ROOM
3939 NORTH DRINKWATER BOULEVARD
SCOTTSDALE, AZ 85251

REGULAR MEETING

PRESENT: Suzanne Klapp, Chair
Robert Littlefield, Council Member

ABSENT: Linda Milhaven, Vice Mayor

STAFF: Kyla Anderson, City Auditor's Office
Joanna Munar, City Auditor's Office
Sharron Walker, City Auditor's Office
Joyce Gilbride, Finance & Accounting
Anna Henthorn, Finance & Accounting
David Smith, Finance & Accounting

CALL TO ORDER

Chair Klapp called the meeting to order at 4:00 p.m. A formal roll call confirmed the presence of Committee Members as noted above.

1. Approval of Minutes, Regular Meeting, March 19, 2012

COUNCILMAN LITTLEFIELD MOVED TO APPROVE THE MINUTES OF THE MARCH 19, 2012 REGULAR MEETING. CHAIR KLAPP SECONDED THE MOTION, WHICH CARRIED BY A VOTE OF TWO (2) TO ZERO (0). VICE MAYOR MILHAVEN WAS ABSENT.

2. Discussion and possible direction to staff regarding 2012 1st Quarter TPRO Report

Ms. Joanna Munar of the City Auditor's Office reviewed the Taxpayer Problem Resolution Officer's report. The rating for the service department rose to 95% from 92% for the same period last year. The billing area also had improved positive responses, to 96% from 95% a year ago. The Tax Audit department's rating rose to 4.9 from 4.58 a year ago.

3. Discussion and possible direction to staff regarding Audit Follow-Up 3rd Quarter Report

Ms. Kyla Anderson of the City Auditor's Department reviewed the status report for previous findings.

4. Discussion and possible direction to staff regarding proposed FY 2012/13 Audit Plan

Ms. Walker stated she would like to extend the planning time for developing the audit plan as the upcoming budget presentations to Council may suggest topics. She expects to present the draft audit plan to the Committee in June and then to Council at the July 2 or 3 meetings.

5. Discussion and possible direction to staff regarding status of FY 2011/2012 Audit Plan

Ms. Walker summarized that the CCCH contract compliance and the indirect cost allocation audits are currently on track. The peer review of the City Auditor's office by external auditors should also be ready by the June meeting. She confirmed to Council Member Littlefield that the Audit Committee will not need to meet in May.

6. Discussion and possible direction to staff regarding City Auditor's budget and performance measures update

Ms. Walker noted salary savings in the current fiscal year due to staff vacancies. Two of the positions have been filled and just one remains vacant. In response to a query by Chair Klapp, she confirmed that the goal of completing 90% of the audit plan next year is realistic, as long as the vacancy rate in the department is not as high as it was this year.

She elaborated that when staff vacancies occurred early in the fiscal year, she chose not to immediately fill those positions in order to achieve vacancy savings and help the overall City budget. However it took longer than anticipated to fill the positions. She also pointed out that the department has a small budget, yet will need to pay the \$500 annual maintenance fee on their auditing software plus iPad fees that have not been included in the proposed budget.

A discussion ensued about the staffing challenges the department has faced. The unemployment rate for certified professional auditors is about three or four percent, far lower than the national unemployment rate. Ms. Walker explained she is converting an assistant city auditor position to a senior auditor and plans to underfill the position by recruiting for an internal auditor, perhaps hiring a recent graduate. She intends to fill future vacancies more timely as they occur.

City Treasurer Mr. David Smith stated that in the past, salary savings were put into a City-wide savings account. This was onerous on smaller departments, so now the vacancy savings will be left within their budgets. Ms. Walker explained the previous calculation had deducted too much, causing overspending in the City Auditor's payroll categories. She estimated about \$60,000 in salary savings will be realized this year.

7. Discussion and possible direction to staff regarding draft updates to City Auditor section of Scottsdale Revised Code

Ms. Walker explained that she has compared the City Code to the model legislation published by the Association of Local Government Auditors (ALGA). The draft that is provided contains suggestions for discussion. Ms. Walker summarized the main changes in the cover memo. After input from the Committee, she will work with the City Attorney's office to draft an ordinance to implement the approved changes.

Mr. Smith said the annual audit is a contractual agreement between City Council and the external audit firm. The Finance & Accounting Division assists with contract administration, but this is an audit of the whole City. The City Auditor enjoys a greater measure of independence than in many municipalities by not reporting to the City Treasurer or any other charter officer. He opined that having the Finance & Accounting Division administer the contract realizes efficiencies. If the whole external audit is moved to the City Auditor's Office, he believes they will experience dysfunctionality and extra costs. He clarified that his office does not design or control the audit plan.

Ms. Walker explained that the model legislation is based on effective audit practices across the country. Having all independent audit responsibilities overseen by the independent City Auditor makes sense. The Treasurer's Office maintains the accounting records and prepares the financial reports. Having the Auditor oversee the audit contract

is more independent. She added that the City Auditor's participation in the external audit has been limited because the CPA firm associates with the Treasurer's Office.

She recalled a discussion she and Mr. Smith had when he first arrived at the City about the external audit belonging in the City Auditor's office, and he expressed agreement at that time. Last year she was invited to several meetings during the course of the external audit. Then Ms. Walker was a member of the evaluation committee that selected the audit firm and she recommended a change but Finance & Accounting kept the same firm. During the most recent audit she was only invited to a couple meetings. Ms. Walker reiterated that it would be more independent to have the City Auditor monitor the external audit.

Mr. Smith argued that contract administration does not give the Finance & Accounting Division any control over the external auditors. To him, this is the most efficient way to coordinate the work. If something is not broken, why fix it?

Chairwoman Klapp said it makes sense to her to have an independent auditor oversee the audit function. If this is the recommendation of the ALGA, she believes this is appropriate, good policy. This is not to say that there is currently a problem.

Ms. Walker agreed that nothing is broken, but it makes sense to have the audit responsibilities together. That way she can avoid any duplication of effort.

Mr. Smith did not agree with this view. He asked what his office is being excluded from.

Council Member Littlefield asked what had brought up this question. Ms. Walker said she had been comparing the model city legislation to another section of the City Auditor's code and decided to update all sections. Based on the conversation she and Mr. Smith had a couple of years ago, when he had asked why the audit contract administration was with the Finance & Accounting Division rather than in the Auditor's Office, she had not anticipated his objection to this change.

Mr. Smith said now that he has some experience working with the auditing firms, he feels it is more efficient to have it housed in his division. He pointed out that the model city tax code says that the auditing department should monitor the activity.

Ms. Walker noted that the City Charter provides that Council shall contract for the independent audit. This is what the citizens voted for, not to have the City Treasurer contract for the audit.

Council Member Littlefield said he needs to think this topic over. In his view, this is the only controversial section. Chair Klapp asked if this section should be brought back to the Committee for further discussion. Council Member Littlefield said Ms. Walker will need to start working with the City Attorney because of the other changes, which will then have to come back to the Committee and then go to City Council for action. He summarized that the real question is whether they want the City Auditor to include this change. Chair Klapp suggested that Ms. Walker discuss the other changes with the City Attorney, and bring this item back to the Audit Committee for further discussion. Mr. Smith added that he and Ms. Walker can also discuss this in the meantime.

8. Discussion and possible direction to staff regarding agenda items for next Audit Committee meeting (June 18, 2012)

Ms. Walker noted that the CPA firm will attend the June meeting to talk about the scope and timing of the 2012 audit. The City Auditor's audit of Concerned Citizens for Community Health and Indirect Costs will be presented. And Ms. Walker will present the draft FY 2012/13 audit plan.

Public Comment

No members of the public wished to address the Committee.

Adjournment

The meeting adjourned at approximately 4:44 p.m.

Respectfully submitted,
A/V Tronics, Inc. DBA AVTranz.